



TEXAS DEPARTMENT OF INFORMATION RESOURCES

Independent Accountants' Report
on Applying Agreed-upon Procedures
Master Work Order Financial Report

August 31, 2011



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Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Directors and Management
Texas Department of Information Resources:

We have performed the procedures enumerated below related to the Master Work Order Financial Report as of and for the year ended August 31, 2011 (the Report) for Texas.gov attached hereto as Exhibit A, which were agreed to by the managements of the Texas Department of Information Resources (DIR) and Texas NICUSA, LLC, a wholly owned subsidiary of NIC Inc. (NIC), solely to assist you in evaluating the Report. Management of NIC is responsible for the Report and related accounting records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of DIR and NIC. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Revenue

1. We obtained a summary of transaction and service revenue accounts and agreed the amounts to the trial balance maintained by NIC as of and for the year ended August 31, 2011 without exception and agreed the total amount to the Report without exception.
2. We obtained the transaction revenue and service revenue subledgers and agreed the total to the revenue summary schedule discussed in procedure 1 above. We added the individual amounts in the transaction revenue and service revenue subledgers and compared the resultant total with the amount in the trial balance. We found no exceptions.
3. We obtained a summary reconciliation comparing revenue recognized for the year ended August 31, 2011 to a schedule of the associated cash received and related cash withheld by the Texas Comptroller of Public Accounts as part of the revenue sharing arrangement with the State of Texas. We traced the amount of revenue recognized to the revenue summary schedule discussed in procedure 1 above. We traced the total amount of cash received and cash withheld by the Texas Comptroller of Public Accounts as part of the revenue sharing arrangement with the State of Texas to a detail cash activity report generated by NIC's accounting system. We noted that reconciling items were identified and supported.



We haphazardly selected a sample of 30 items from the detail cash activity report discussed in the paragraph above, and obtained the associated customer contract, purchase order, invoice, and evidence of cash payment received, as applicable to that transaction. We traced the amount per the detail cash activity report to each of the supporting documents provided. In addition, we traced the amount per the revenue subledger to each of the supporting documents obtained except as noted below. For one sampled item, we noted that the amount per the evidence of cash payment did not agree to the amount associated with that transaction in the daily batch data file by \$44. We found no other exceptions.

For sampled items, which were processed as part of a batch payment from the Texas Comptroller of Public Accounts, we inspected the daily batch data file containing the sampled item and traced the amount per the transaction revenue subledger to the daily batch data file. In addition, we traced the total amount per the daily batch data file containing each sampled item to evidence of cash payment received from the Texas Comptroller of Public Accounts. We found no exceptions.

For sampled items, which related to eFiling, we agreed the amount per the bank statement evidencing cash receipt to the sampled item without exception. No further procedures were performed for these items.

4. We haphazardly selected a sample of 10 items from the service revenue subledger, and obtained the associated customer contract, purchase order, invoice journal entry documentation, and evidence of cash payment received, as applicable to the transaction. We agreed the amount per the revenue subledger to each of the supporting documents provided except as noted below.

We noted that two items sampled related to monthly revenue recorded for the amortization of deferred revenue pertaining to the same customer contract. For such items, we also verified mathematical accuracy of the monthly revenue amount recorded based on the total revenue amount and contractual terms with the customer noting an incorrect amortization period of five years was utilized whereas the contract term was three years. In addition, the number of months amortized in the year ended August 31, 2011 was not correct based on the contractual term. We calculated a difference in revenue in the year ended August 31, 2011 as a \$389 overstatement related to this customer contract.

5. We inquired of NIC management related to controls over the revenue process and were informed that NIC performs monthly reconciliations of the accounts receivable account. We haphazardly selected October 2010, January 2011, and May 2011 from the year ended August 31, 2011 and obtained the accounts receivable reconciliation and associated supporting documentation. For each reconciliation, we verified the mathematical accuracy, noted that management review of the reconciliation was documented within 30 days of the respective month-end and noted that reconciling items were identified and supported. We found no exceptions.

Operations Costs

6. We obtained a summary of operations costs accounts and agreed the amounts in each category to the subtotals per the trial balance maintained by NIC as of and for the year ended August 31, 2011 without exception and agreed the total amounts in each category to the Report without exception.
7. We obtained the operations costs subledger for the year ended August 31, 2011 and agreed the total in each account to the trial balance. We added the individual amounts in the operations cost subledger and compared the resultant total with the amount in the trial balance for each account without exception.



8. We excluded revenue share, payroll expense, depreciation cost, accruals, and reversals of accruals from the operations cost subledger, and haphazardly selected a sample of 30 operations cost items and five credit entries to the aforementioned operations costs accounts. For the sample of 30 operations cost items, we obtained the associated vendor invoice and evidence of cash payment, and agreed the amount per the subledger to each of the supporting documents provided, as applicable to that transaction except as noted below. For the remaining four items, no exceptions were noted.

We noted that three items sampled related to allocated indirect expenses. For such items, we obtained a schedule prepared by NIC management calculating the shared service expense allocation and verified the mathematical accuracy without exception.

We noted that eight items sampled related to purchases that are eligible, per inquiry of NIC management, to be recorded in the Report as the invoiced cost plus a 10.25% procurement processing fee. For such items, we recalculated the total amount recorded as operations costs as the total amount per the invoice plus the 10.25% processing fee. Of those eight items, six items related to subcontractor payments to Deloitte based on an invoice received of expenses incurred by Deloitte. For those six items, we obtained the invoices but no further procedures were performed. For the remaining two items, the recalculations were performed without exception.

We noted that three items sampled related to the monthly amortization recorded for a prepaid expense. For such items, we also verified the mathematical accuracy of the amortization expense recorded based on the term of the service. For two of these items, portions of the amount utilized as the total cost to be amortized was an estimate, which differed from the amount invoiced by \$6,534 and \$9,212, respectively.

We noted that 10 items sampled related to credit card fees. As invoices are not available for such transactions, we obtained the associated vendor credit card statement. For 4 of the 10 sampled credit card fee items, vendor credit card statements were not available as such items are paid via automatic debit from the bank account.

We noted that two items sampled related to transaction processing fees charged by NIC. We obtained a schedule indicating the total transaction count for that month and verified the mathematical accuracy of the expense amount recorded based on the rate of \$0.20 and \$0.30 per transaction utilized for the two items sampled without exception.

For the sample of five credit entries to the operations costs accounts, we obtained the journal entry support related to each item and inquired of management as to the nature of the entry without exception.

9. We inquired of NIC management related to controls over the operations expense process and were informed that management approves invoices for payment, as applicable to that transaction. Of the 30 items sampled as discussed in procedure 8 above, we noted two items, which invoices were paid by NIC. For those two items, we inspected evidence of management's approval and noted that those two items were approved for payment without exception.

We inquired of NIC management related to controls over the process for operations expenses that are credit card fees and were informed that NIC performs a monthly variance and trend analysis over credit card fee amounts to monitor the reasonableness of the credit card fees paid.

10. We obtained the depreciation expense subledger and agreed the amount per the subledger to the summary of operations cost accounts discussed in procedure 6 above without exception.



We haphazardly selected a sample of 10 depreciation items from the subledger and verified the mathematical accuracy of the depreciation expense recorded based on the asset value, useful life, and salvage value, if any. We found no exceptions. For the 10 items sampled, we noted a useful life of five years and three years utilized for software and hardware, respectively, with a salvage value of 10% utilized for hardware and none for software.

11. We obtained the schedules calculating the State of Texas revenue share for the year ended August 31, 2011, verified the mathematical accuracy and agreed the resultant amounts per the schedules to the Report.

The Total Revenue Share schedule calculates total revenue share as total revenue per the Report less total credit card fees per the Report, the difference of which is multiplied by 20%. We found no exceptions.

The Net Revenue Share schedule calculates the net revenue share as the Texas NICUSA Recovered Investment multiplied by 50%. The Texas NICUSA Recovered Investment amount is calculated as Cumulative Investment in Capital Assets as of August 31, 2011 less Cash from Operations for the year ended August 31, 2011 plus Investment in Other Assets and Liabilities. We noted a difference of \$218,263 between the Net Revenue Share schedule and the Report. This difference was a result of capital purchases and adjustment entries in years prior to fiscal 2011 that were not included in the Report, understating Cumulative Investment in Capital Assets as of August 31, 2011, and resulting in a cumulative overstatement of Net Revenue Share paid to the State of Texas.

12. We obtained the payroll expense subledger and agreed the amount per the subledger to the summary of operations cost accounts discussed in procedure 6 without exception. We haphazardly selected a sample of 30 payroll expense items from the subledger.

For 25 items sampled related to employees directly charging time to the Master Work Order project, we verified the mathematical accuracy based on the rate per hour used for the associated employee and hours indicated for that item. We traced the hours indicated for each sampled item to the applicable employee timesheet and the rate per hour to the Master Work Order Employee Roster containing hourly rates for each employee. We found no exceptions.

For five items sampled related to indirect payroll expense allocated to the Master Work Order project, we obtained a schedule prepared by NIC management calculating the shared service expense allocation and verified the mathematical accuracy without exception.

Accounts Receivable

13. We obtained a summary of accounts receivable accounts and agreed the amounts to the trial balance maintained by NIC as of August 31, 2011 without exception and agreed the total amount to the Report without exception.
14. We obtained an accounts receivable aging report as of August 31, 2011 and agreed the total to the accounts receivable summary schedule discussed in procedure 13 without exception. We selected a sample of the five customers with the largest balances from the account receivable aging report, and verified the date of the transaction or service indicated per the supporting documentation corresponded to the period, which revenue was recorded to review for proper cutoff at fiscal year-end. We found no exceptions.



15. We obtained the accrued revenue detail consisting of accounts receivable amounts not contained in the accounts receivable aging report discussed in procedure 14 above, and agreed the total to the accounts receivable summary schedule discussed in procedure 13 without exception. We inquired of NIC management related to the process for estimating accrued revenue at year-end and compared the amount estimated as of August 31, 2011 to schedules obtained indicating actual results noting an understatement of \$147,538 between the amount estimated and actual results.

We noted \$246,684 on the summary of accounts receivable accounts discussed in procedure 13 above, which were designated as in-transit receivables, which were not subject to further procedures.

Accounts Payable and Accrued Liabilities

16. For transactions between September 1, 2011 and June 30, 2012, KPMG obtained a check register listing and a wire transfer report and noted 28 cash disbursements over \$75,000 during this time period. For these disbursements, we agreed the amounts to the respective invoices and check stubs/wire transfer notices and verified the date of the transaction or service indicated per the supporting documentation corresponded to the month that the expense and associated accounts payable or accrual was recorded to review for proper cutoff at fiscal year-end. We noted five items related to the year ended August 31, 2011, which were not accrued or differed from the original accrual estimate as of August 31, 2011, amounting to accrual differences to each vendor of \$13,719, \$2,113, \$400, \$41, and \$2,609, respectively.

We requested open invoices over \$75,000 that had been received but not paid as of July 16, 2012 noting none.

* * * * *

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management of the Texas Department of Information Resources, Governor's Office, Legislative Budget Board, Legislative Audit Committee, State Auditor, Comptroller of Public Accounts, the Sunset Advisory Commission, state agencies who participate in Texas.gov, the presiding officer of each house of the legislature, the chair of each committee in the legislature with primary jurisdiction over the Texas Department of Information Resources, and members of each house of the Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 30, 2012

**Master Work Order
Statement of Operations
Year ended August 31, 2011**

| | Year-to-Date August 2011 | Budget FY 2011 | Percent Budget 100.0% |
|--|--------------------------------|----------------------------|-----------------------------|
| Master Work Order Revenue: | | | |
| Transaction Revenue | \$ 38,111,672 | \$ 33,659,922 | 113.2% |
| Service Revenue | 12,886,937 | 9,602,846 | 134.2% |
| Total Master Work Order Revenue | <u>50,998,609</u> | <u>43,262,768</u> | <u>117.9%</u> |
| Master Work Order Operations Costs: | | | |
| Total Revenue Share | 9,960,663 | 8,262,466 | 120.6% |
| Variable Cost | 9,397,375 | 9,652,800 | 97.4% |
| Team Cost | 16,633,843 | 18,724,633 | 88.8% |
| Depreciation Cost | 3,239,616 | 3,211,430 | 100.9% |
| Bad Debt Expense | 2,048 | - | 0.0% |
| Total Operations Costs | <u>39,233,545</u> | <u>39,851,329</u> | <u>98.4%</u> |
| Net Recovery of Investment | <u><u>\$ 11,765,064</u></u> | <u><u>\$ 3,411,439</u></u> | <u><u>344.9%</u></u> |

Exhibit A

Master Work Order
Unrecovered or (Recovered) Investment
For State Fiscal Years

| | YTD 2005 | YTD 2011 | Budget 2011 |
|--|---------------------|-----------------------|---------------------|
| Capital Assets | | | |
| Beginning of Year Investment in Capital Assets | \$ 6,337,156 | \$ 21,678,913 | \$ 22,535,870 |
| Current Year Investment in Capital Assets | 200,672 | 108,805 | 1,125,653 |
| Cumulative Investment in Capital Assets | <u>6,537,828</u> | <u>21,787,718</u> | <u>23,661,523</u> |
| Cumulative Earnings (Loss) | | | |
| Cumulative Gain (Loss) since inception | - | 2,234,987 | 8,855,309 |
| Accumulated Depreciation and Discontinued Assets | <u>-</u> | <u>10,670,639</u> | <u>-</u> |
| Earnings plus Depreciation | - | 12,905,626 | 8,855,309 |
| Current Year Earnings | - | 11,765,064 | 5,965,705 |
| Depreciation and Discontinued Asset Expense | <u>-</u> | <u>3,239,616</u> | <u>3,211,430</u> |
| Less Cash from Operations | <u>-</u> | <u>27,910,306</u> | <u>18,032,444</u> |
| Investment in Other Assets and Liabilities (See Note 1) | <u>-</u> | <u>1,575,924</u> | <u>-</u> |
| Texas NICUSA Unrecovered or (Recovered) Investment | <u>\$ 6,537,828</u> | <u>\$ (4,546,664)</u> | <u>\$ 5,629,079</u> |
| Net Revenue Share | - | 2,273,332 | - |
| Less: Amounts Previously Paid | <u>-</u> | <u>1,093,690</u> | <u>617,310</u> |
| Current Month Net Revenue Share due to State | <u>\$ -</u> | <u>\$ 1,179,642</u> | <u>\$ -</u> |

NOTE 1:

The Investment in Other Assets and Liabilities is the net of Accounts Receivable and Prepaid Expenses less Accounts Payable and Deferred Revenue.